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THE INFLUENCE OF AGRIBUSINESS MARKET STRUCTURE ON THE ENTREPRENEURIAL ENVIRONMENT IN A REGION

1. Introduction

Results of the Czech agriculture and food industry during last years open up a range of questions concerning the benefits and risks of membership in the European Union. However, they can also be an opportunity to consider to what extent we are able to take over the existing rules and use conditions imposed by directives of the Community and to what extent we are able to actively assess the situation and adequately respond to the development of the economic environment in broader European and international contexts. We can see that significant regional and structural differences are still hidden behind aggregated data about average economic performance of the food economic system of the EU and that different approaches and priorities for solutions to individual issues can be chosen, provided that the issues have been identified and assessed in an objective manner.

2. Aim and methodology

The aim of the paper is to characterize crucial signs of changes caused by the globalization processes in the agro-food sector and their consequences for achieving competitiveness of enterprises. To examine the influence of the shaping of agribusiness and its market structure on the position of agricultural companies and directly related segments in the field of the processing of agricultural products in this context from the perspective of achieving competitive advantages and the actual economic benefit in the conditions of the particular region.

From the methodology perspective, the contribution is divided into two parts: the first part defines relevant criteria of the competitiveness of agricultural companies in current agribusiness and the second part focuses on the influence of the market structure on the prosperity of enterprises at the level of primary production and processing segments in the commodity vertical of agribusiness and the chance to participate in the creation of added value in final products. Arguments used in the work are generalised to certain findings of analyses carried out in the Czech agri-food economy.

3. Results and discussion

Contemporary agriculture is far from being an enclosed autonomous system; not only due to the acceptance of its role in the sustainable development of society, but exactly due to the changes in the position of agricultural production within the foodstuff economy. It is this "production" function where the specialization of primary agricultural production into sectors is quickly overcome. *Agribusiness shaping* processes are typical of the inclusion of companies in many sectors that more or less participate in the production, processing and distribution of foodstuffs into a self-contained system. In this process, the influence of finalizing segments (processing and distribution) during the shaping of demand for raw products grows, from the perspective of structural and economic characteristics, and affects the allocation and the level of utilization of production factors, which fact is also reflected in *the potential development of individual regions* with much broader economic, social and political consequences. In practice, the acceptance of the consumer concept in the Common agricultural policy (CAP) as well as the shift of focus to the finalizing segments of the processing and distribution of foodstuffs ever more significantly form a new and harder competitive environment of both food processing companies and agricultural companies. Ever more often, a limiting condition for the level and choice of the structure of agricultural production in the particular region is success in the sales of source agricultural products in the form of demanded final/food products on end consumer markets.

No need to emphasize that the process of expanding the agrarian market without significant barriers brings about many changes that *positively influence the development of the particular segment of economy.* In general, conclusions of theoretical works, analyses and studies related to this issue can be generalized in the following fields of arguments [Bečvářová 2002]:

- *expansion to bigger markets* supports the differentiation of products and causes regional transfers of production capacities and the growth of production with the most efficient entities and thereby accelerates specialization and the related possibilities to achieve savings from large-scale production; at the same time, the potential and recoverability of utilized innovations increase;
- *increased competition* on larger markets supports and accelerates better allocation of production factors towards (the most) efficient activities and entities; this fact also creates better starting points for the increase of competitive strength on the world market;

– *larger common market and increasing competition* require but also facilitate *faster technical and scientific development*, the development of new products, processes, technologies and procedures through common (internationally linked) research and its application in practice in all national economic systems connected to this market.

If we define the *competitiveness* of a certain economic system as the *ability to achieve results corresponding to the aims of the system and the dynamics thereof in a competitive environment*, it is clear that a prerequisite for achieving unbiased aims in agrarian sector, including the selection of criteria for the evaluation of the extent to which they were achieved, is the knowledge of the range of factors determining their fulfilment.

To assess the *competitiveness of agricultural enterprises*, we may choose at least two approaches related to the definition of the level of the economic system, the qualities (i.e. competitiveness) and behaviour of which should be assessed, which fact is related to the choice of the level of differentiation and examination criteria [Bečvářová 2005]. From the perspective of method and methodology, we may choose an approach based on either (1) inter-company comparison at the horizontal level of the particular stage of production or processing of the final product or (2) prerequisites for participation in the creation of added value in the final product, i.e. from the perspective of successful participation of a company in the appropriate stage of the foodstuff vertical.

The second approach is based on *the dynamic concept of competitive advantages* of the entire system. The advantages are measured not only by the results of a relatively independent entity on a specific agrarian market that corresponds to the particular stage of the increase in value of the original raw product within commodity foodstuff chains, but also by the benefit resulting from the connection and mutual relationships of entities participating in the development, production, processing and distribution of foodstuffs within the entire process, i.e. savings of transaction costs of the appropriate commodity chains. The success of those interactions is one of the crucial factors influencing the structure and extent of agricultural production in the particular region, regardless of whether the processing company is located in this region or not[1].

The shaping of agribusiness, whether fully accepted in the structural and economic policies of individual countries or not, brings about new views of traditional approaches and the assessment of technical and economic efficiency of agricultural enterprises and the application of agricultural management systems. Science findings of agribusiness in American, Australian and European conditions [e.g. Boehlje

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[1] While regional affiliation of agricultural enterprises usually depends on the location of cultivated land, regional aspects are less important in the relationship to related segments of the commodity vertical. Within a specific region, bonds and especially the efficiency of directly related segments that process their production, i.e. usually food processing companies, are of importance for agricultural enterprises; the competitiveness of a food processing company, especially its successful participation in the appropriate foodstuff vertical and selection of the supplier of the source raw product, determines the actual demand on the market of agricultural products.

et al. 2002; Connor 2003; Harvey 2005] as well as results of our research into the conditions of transitive economic systems such as the Czech Republic [Bečvářová 2002; 2005; Bečvářova, Vinohradský 2004; 2006] show that in current conditions, there are at least two crucial changes affecting the business environment of agricultural enterprises caused by this development:

– growing influence of the market structure of agribusiness on the shaping of agrarian markets;
– the expansion of control systems by finalizing segments and the enforcement of various forms of out-of-market coordination of activities within commodity foodstuff chains.

As demand becomes the crucial relationship forming conditions in a range of connected agrarian markets, *the influence of the market structure* of agribusiness rises significantly. During permanently excessive supply, which is typical of the majority of agricultural products in Europe, the market structure with signs of imperfect competition increases the risk and enables the market power of customers to be misused. At the same time, however, it often decelerates the coordination processes of activities related to the reduction of transaction costs in the commodity chain and becomes another factor in the imperfect transfer of demand in the sequence of agrarian markets from consumers to agricultural producers.

If we use the definition of the term *market power as the ability of an enterprise to influence the market price of goods or services without the risk of losing all customers and causing their departure to competing companies* [Wikipedia, 2006], it is clear that the market power exhibit is related to a certain type of market failure and the level of imperfection of competition that characterize the appropriate market structure. The signs are present not only in sectors preceding or following primary agricultural production, but they also influence the business environment and the markets on which primary agricultural producers operate[2].

From the perspective of end customers, even the existing market structure of final segments of agribusiness shows as a (temporary) positive influence on the consumer prices in the final markets of transitive economic systems such as the Czech Republic.

Contrary to the criticism of imperfect competition that is usually based on arguments about the inefficient allocation of resources and that is supported with analysis of the surplus of producers and consumers in the conditions of perfect competition and monopoly the positives of such market structure in a practice have been identified. The approach above does not consider *savings from large-scale production* that enables the efficient use of technological innovations and better allocation

[2] E.g. the influence of monopsony of the processing industry indirectly influenced by the relationship between the foodstuff industry and the trade usually exists in relation to primary agricultural production companies, i.e. on markets of agricultural products, a limited monopoly or bilateral oligopoly is typical of the relationship between foodstuff companies and the trade industry, i.e. the foodstuff market, an imperfect competition is also typical of markets with inputs where the influence and market power of the monopoly/oligopoly of supplier sectors can be identified.

of resources, a sign typical of concentrated production. There is assumed that identical cost curves exist in both instances. However, in sectors participating in agribusiness, similarly as in other sectors of the economic system, implemented savings from large-scale production are based on mass, serial production and new technologies and cannot be fully implemented in the conditions of perfect competition. Another positive feature is the higher productivity of work based on the modernization of production facilities and faster application of the results of research and development in big enterprises with strong capital that rationalize the production process and other operational activities. The result is that in an imperfectly competitive environment, theoretically speaking, consumers could achieve higher gains from consumption than on a perfectly competitive market.

Interpretation is a much more complex problem, though from the *perspective of agricultural producers as suppliers of raw products.* In this case, the market power of big food companies manifests itself through deformed conditions of demand for agricultural products, including negative influences on the formation of prices paid to farmers. The market power of crucial entities in sequence within agribusiness enables the increase (to accelerate the decrease) in the market price of agricultural products to be limited and thereby achieve a certain share of agricultural enterprises in the final price of products, despite rather strong regulations and the application of systems and tools of direct support to prices of agricultural products in agrarian policies of crucial world competitors. The requirement arises from the need for quick response and adaptation to changing external and internal conditions, including rising demands for the coordination of activities within commodity verticals. The pressure on cost savings, on the one hand, and the efforts to control more stages of the food chain, on the other, are crucial motives causing consolidation in agribusiness, at horizontal/regional as well as vertical/over regional levels.

4. Conclusion

It is obvious that despite regulatory interventions and different levels of legislative environment, in general, the development in agribusiness will further increase the dependency of agricultural enterprises on related segments of foodstuff chains, including the transfer of risks and the enforcement of market power in a broad range of mutually connected markets.

We can also expect the expansion of relevant markets accompanied by the overcoming of regional limits in interactions between primary production, purchase and first-level processing of agricultural products. Even if this development in Europe is mostly said to be the result of the concentration of trade companies, consolidation processes are currently in progress, especially in various fields of the foodstuff industry. In order to strengthen their influence and preserve their competitive advantages on markets of food products, promising companies in this segment of the vertical seek and prefer suppliers of agricultural products that offer permanent supplies of relatively big batches of agricultural products with even quality and at reasonable prices. Although at the current stage of development, agricultural enterprises are significantly limited by regulatory mechanisms of the CAP, which is undergoing gradual reformation, they should not be merely passive recipients of incoming changes. In relation to a certain level of decentralization in the selection and allocation of economic tools within the concept of direct payments and individual axes of the Structural Development Fund, producers (and processing companies) should be supported by such tools that enable them to utilize unique knowledge and available opportunities for the creation of long-term competitive advantages anticipating changes in the business environment.

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WPŁYW STRUKTURY RYNKU AGROBIZNESU NA ŚRODOWISKO BIZNESOWE W REGIONIE

Streszczenie

Autorka omawia najważniejsze sygnały zmian powodowanych procesem globalizacji w sektorze *agrofood*. Zbadano wpływ kształtowania agrobiznesu i jego struktury rynkowej na pozycję firm rolniczych i bezpośrednio powiązane segmenty w obszarze przetwarzania i dystrybucji produktów rolniczych w tym kontekście z perspektywy osiągnięcia przewagi konkurencyjnej i bieżącej korzyści ekonomicznej w warunkach określonego regionu.